2016 Medicare Trustees Report Analysis

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On June 22, 2016 the Medicare Trustees issued their annual report outlining the financial status of the program. The following are major highlights from this year's report:

Obama Administration Sends Medicare Trustees Report to Congress Late … Again

- The Social Security Act mandates that the Medicare trustees issue their annual report to Congress no later than April 1st of each calendar year. According to the non-partisan Congressional Research Service (CRS), the Obama Administration never fulfilled its statutory obligation to submit the report on time. During the past eight years, the Obama Administration, on average, released the Medicare trustees report 75 days past the statutory deadline – ranging from 41 days late in 2009 and 126 days late in 2010 to 112 days late in 2015. Today's report is now 82 days overdue. Adding insult to injury, the Administration failed to respond to repeated Congressional inquiries demanding to know why the report was not submitted on schedule. This is yet another example of the "most transparent Administration in history's" blatant disregard for the law.

Hospital Insurance Trust Fund Bankrupt in 2028…

- Medicare's Hospital Insurance (HI) or "Part A" Trust Fund ran a cash flow deficit of $3.5 billion in 2015. Expenditures from the Part A trust fund exceeded annual income every year between 2008 and 2015. The Medicare trustees estimate that the Part A trust fund will generate surpluses between 2016 and 2020 due to recently enacted legislation and an assumed continuation of the economic recovery. Specifically, the Medicare Part A trust fund income is expected to exceed expenditures by about $1.3 billion in 2016. Deficits are expected to return in 2021 and will continue until the Part A trust fund is officially bankrupt in 2028, at which time the Medicare program will no longer be able to pay full benefits for seniors. The 2028 exhaustion date is two years earlier than the trustees projected in last year's report.

IPAB Determination Triggered in 2017…

- The health care law created a 15-member Independent Payment Advisory Board (IPAB) charged with making recommendations to cut Medicare spending if and when the program's spending exceeds specified economic growth targets. Since 2013, the CMS Chief Actuary has been required to calculate both the projected and target growth rates. If the Chief Actuary determines that the projected Medicare per capita growth rate exceeds the per capita target growth rate in a given implementation year, then the Chief Actuary must set a savings target for that year. For determination year 2013 through 2016, target growth rates were not exceeded.

- For the second consecutive year, the trustees predict that Medicare's per capita growth rate will exceed the per capita target growth rate in 2017.

Future Medicare Spending as a Percentage of GDP on the Rise…

- In 2015, Medicare covered 55.3 million people at a total cost of $647.6 billion.

- The trustees continue to assume "a substantial long term reduction in per capita health expenditure growth rates relative to historical experience". Despite predicting a slowdown in health care spending, the trustees still estimate Medicare's costs, under current law, will rise from their current level of 3.6 percent of Gross Domestic Product (GDP) to 5.6 percent in 2040 and to 6.0 percent in 2090. Under the Chief Actuary's illustrative alternative projection, which assumes that the health care law Medicare cuts are phased-down or do not occur, anticipated costs would rise to 6.2 percent of GDP in 2040 and to 9.1 percent in 2090.

- Even though the trustees assume continued health care spending declines, the report is clear that Medicare still faces substantial financial shortfalls that must be addressed with legislative action. The trustees warn that "such legislation should be enacted sooner rather than later to minimize the impact on beneficiaries, providers, and taxpayers".

Massive Unfunded Obligations…

- Medicare Part A is financed by a 2.9 percent hospital insurance (HI) payroll tax that is split between employers and employees. Beginning in 2013, the health care law mandated an additional 0.9 percent HI payroll tax on wages over $200,000 for single filers and $250,000 for married filers. There is no upper limit on earnings subject to the tax. Income deposited into the Part A trust fund is credited using interest-bearing government securities. Expenditures for medical services and administrative costs are

recorded against the fund. Securities represent obligations the government has issued to itself. Assuming current law remains unchanged, the Medicare trustees estimate the Medicare Part A total unfunded obligation over 75 years is $3.6 trillion. This represents a 20 percent increase over last year's value of $3.0 trillion. Using the CMS Actuary's alternative projection, which looks at Medicare's financial footing using more realistic assumptions, the Part A unfunded obligation over 75 years climbs to $9.5 trillion.

- Unlike the Medicare Part A trust fund which has a dedicated revenue stream (the HI payroll tax), Medicare Part B (physician and outpatient hospital benefit) and Medicare Part D (prescription drug benefit) are funded by beneficiary premiums and general revenue. As a result, the Medicare trustees estimate that the amount of taxes collected over the next 75 years that will be spent to pay for Medicare Part B and Part D services equals $28.6 trillion – an increase of $3.8 trillion compared to last year's report.

- Assuming current law remains unchanged, the trustees project Medicare's 75 year total spending in excess of dedicated revenues is $32.4 trillion. Again, using the CMS Actuary's more realistic alternative scenario, that figure soars to $43.5 trillion.

Historic Levels of Taxation…

- The Supplementary Medical Insurance (SMI) or "Part B" trust fund pays for physician care, outpatient services, and certain prescription drugs. According to Medicare's actuaries, SMI spending continues to grow at a rapid rate. The trustees report evaluates the long term implications of escalating SMI cost growth by comparing it to total Federal income taxes (personal and corporate) during the same fiscal year. The trustees now predict that, if future federal taxes maintain their historical average level (relative to the national economy), then SMI general revenue financing in 2090 will represent a staggering 25.2 percent of total Federal income taxes. In 2016, the trustees expect SMI general revenue financing will represent 15.8 percent of total Federal income taxes.

Beneficiary Part B Premium Impact…

- In 2016 the base monthly Part B premium rate is $121.80. When determining an individual's monthly premium, a hold-harmless provision limits the dollar increase in the Part B premium amount to the same dollar increase in the individual's Social Security benefit. Current law's hold-harmless provision applies to roughly 70 percent of Part B beneficiaries who have their premium deducted from their Social Security benefit. In response, the law also requires Medicare increase Part B premiums for the other 30 percent of beneficiaries in order to offset the premium dollars lost due to the hold-harmless provision. Part B premiums for other beneficiaries may need to be increased substantially next year to cover these costs, so the trustees currently estimate the monthly premium for 2017 at $149. Congress mitigated what would have been an even

more dramatic increase in the 2016 premium for beneficiaries not protected by the hold harmless through the Bipartisan Budget Act of 2015. While that law provided authority to the Health and Human Services (HHS) Secretary to address a 2017 hike, the scenario the trustees' present does not meet the criteria for exercising that authority.

Unrealistic Assumptions…

- The non-partisan CMS Chief Actuary, Paul Spitalnic, used both his statement of actuarial opinion and his alternative financial projection to issue the following warnings:

    - *Actual Future Medicare Costs May Exceed Current Projections.* The trustees warn that there is "substantial uncertainty regarding the adequacy of future Medicare payment rates under current law." In fact, the CMS Chief Actuary notes that current law projections may underestimate actual future costs "possibly by substantial amounts". That is why the actuaries produce an alternative illustrative scenario as a companion to the annual trustees report. This analysis helps to quantify the degree to which official trustee estimates may understate future Medicare costs.

    - *Provider Productivity Cuts Unsustainable*. The trustees continue to assume that President Obama's health care law provider productivity payment cuts will occur as planned. These assumptions defy past experience. In 2015 Congress permanently replaced the Medicare Sustainable Growth Rate or "SGR" physician payment mechanism. Previously, from 2003 through 2014, Congress acted to override all statutorily scheduled Medicare physician payment reductions. The trustees say lawmakers may "feel substantial pressure to override the productivity adjustments, much as they did to prevent reductions in physician payment rates while the SGR was in effect." As a result, the Chief Actuary implies that Congress is unlikely to allow the health care law's productivity cuts to stand over the long term.

    - *Negative Operating Margins Unsustainable.* The trustees project that the health care law's provider cuts are expected to erode operating margins. The report's economic models suggest that from 2011-2019 up to 5 percent more hospitals would experience negative total facility margins and approximately 20 percent more would see negative Medicare margins. By 2040, 50 percent of hospitals, 70 percent of skilled nursing facilities, and 90 percent of home health agencies would experience negative total facility margins. The trustees warn that this raised "the possibility of access and quality-of-care issues for Medicare beneficiaries". The report adds that "providers could not sustain continuing negative operating margins and would have to withdraw from serving Medicare beneficiaries."